

Environmental Analysis of an Industry

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THE GLOBAL BUSINESS ENVIRONMENT

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Introduction

In business, environmental analysis denotes a strategic or rather a tactical tool of identifying all the internal as well as external elements, influences, forces or factors that are affecting the performance of either an individual organisation or the entire industry (Aliu, 2018). It is argued that in every business environment, there are factors that influence the operation and the overall performance of the business either from inside or outside. In most cases, those environmental factors do not only affect the performance of an individual company but rather the entire industry (Ellitan, 2017). In other terms, they shape the entire industry in terms of its operation and the overall performance. Such a powerful influence of business environmental factors makes the environmental analysis an important process for every business (Aliu, 2018). With this prior knowledge, therefore, the paper aims to explain the major forces influencing or shaping the business environment of the car manufacturing industry and at the same time explain how the industry has changed with time. The paper is also set to critically assess both the challenges/threats and opportunities presented by such major forces and illustrate how firms can best position themselves to gain a competitive advantage.

Major Forces Shaping Business Environment of the Car Manufacturing Industry

For the purpose of this paper, car manufacturing or rather the automotive industry is the centre of focus. In order to identify and explain the major forces shaping the business environment of the automotive industry, therefore, PESTEL analysis will be used. PESTEL analysis is reported to be a focused business framework that helps business researchers to effectively explore the business environment and accurately identify all forces affecting the business performance or shaping a certain industry including the political, economic, socio-cultural, technological, environmental as well as legal factors (Pan, Chen, and Zhan, 2019). It is

with this prior knowledge that PESTEL analysis has been chosen as the appropriate business framework for analysing factors that are shaping the automotive industry.

PESTEL Analysis of Car Manufacturing Industry

Political Factors – These denote all activities or practices by the concerned government(s). They include but not limited to government regulations as well as political policies likely to affect the operation of a given business industry or an individual corporation. The specific examples of political factors that commonly affect the operation and overall business performance include taxation and trade policies, labour law as well as the political stability, among others (Çitilci and Akbalık, 2020). One of the forces under the category of political factors whose impact on the car manufacturing industry is evident is the safety regulations. Sources indicate that many countries across the world have through their governments designed and enforced some safety regulations to regulate both the manufacturing and the use of vehicles. Moreover, there are emission policies or the environmental laws that have been designed and enforced in many states to control environmental pollution (Conibear et al., 2018). To a large extent, such policies have given a new shape to the automotive industry as the major industry players are being forced to shift their focus to meet this new demand.

Economic Factors – These are the factors related to the economic growth that also affect the operation as well as the profitability of business organisations (Çitilci and Akbalık, 2020). They include factors such as levels of employment/unemployment, rates of foreign exchange and interest rates, among others. The automotive industry, in particular, is significantly affected by the economic crisis such as high levels of unemployment being experienced in different parts of countries across the globe, especially in the recent past. The tough prevailing economic conditions are making the demand for the vehicles, especially the premium or luxury car models

to continue stagnating. The high taxation rates for premium/luxury vehicles in some global markets are yet another economic force shaping the car manufacturing industry (Zhang, Qian, Sprei, and Li, 2016). The high taxation rates have scared away some potential customers hence the reason for the low demand for luxury vehicles and low profitability of the industry. It is becoming a major challenge for even the big automotive companies to operate with such low profitability leaving alone the new entrants.

Socio-Cultural Factors – These refer to the prevailing social and cultural environment as well as emerging trends (Pan et al., 2019). Statistics have it that the automotive industry is significantly being affected by the ever-changing needs as well as preferences of the consumer not forgetting the emerging social trends (Bindra, 2020). The research shows that consumer preferences are fast-changing in such a way that they demand new models of vehicles as time goes by. Such fast-changing preferences of consumers have forced automotive companies to invest more in research and development and to innovatively design car models that meet new tastes and preferences of the consumer. The increasing demand for high mileage cars as well as electric vehicles in African and Europe markets respectively is a good example to show consumer preferences are fast-changing.

Technological Factors – They are the changes in technology and innovation that affect the performance of the business by the end of the day. Statistics have it that the car manufacturing sector is one of the industries that are most affected by the fast-advancing technology as well as innovation (Stănculescu, 2016). In order to design new car models that meet the ever-changing needs of the consumer, automotive firms are forced to embrace the advancing technology and be extra innovative. The major car manufacturing firms like Toyota and Ford, just to name a few, continues to enjoy significant market share courtesy of investing more on advanced technology

and being innovative enough to manufacture new car models such as the high mileage and emission-free vehicles that are currently on high demand (Bindra, 2020).

Environmental Factors – To some extent the automotive industry has been shaped by some environmental forces, especially the emission policies (Pan et al., 2019). In the recent past, many nations across the globe have developed and enforced harsh environmental laws both at local and international levels to control the environmental pollution resulting from emissions of motor cars (Bindra, 2020). With these environmental pollution laws in place, the demand has shifted to vehicles with low or free emissions. As a result, the key players in the industry have been confronted with the challenge of shifting their focus to produce low or free emission vehicles (Conibear et al., 2018).

Legal Factors – These are the legal requirements affecting business operation and performance. Examples include consumer law, employment law as well as health and safety policies (Pan et al., 2019). Among the key legal force shaping the car manufacturing industry, in particular, is the strict emission policies. The other legal force shaping the industry is the consumer safety laws like the safety belt policy. In many global markets, consumer safety laws have been enforced to govern manufacturing as well as the use of motor vehicles (Conibear et al., 2018). Furthermore, there is the issue of tax laws such as the high taxation rates imposed on luxury vehicles in some global markets.

Critical Assessment of the Opportunities and Challenges Presented By Such Forces

It is no doubt that the wide range of forces shaping the business environment of the automotive industry presents some opportunities as well as challenges to the industry. To be able to critically assess the challenges and opportunities presented to the industry by those forces, a SWOT analysis will be used. It entails identifying strengths, opportunities, weaknesses as well as

threats facing the business at organisational or industry level hence its suitability for this study (Gürel and Tat, 2017).

SWOT Analysis of Car Manufacturing Industry

Strengths

Foremost, the forces shaping the business environment of the car manufacturing industry have presented the strength of making it an evolving industry. Forces such as the ever-changing taste and preferences of the consumer have lowered the demand of some car models will increasing the demand of some more new models such as the electric vehicles and those that have low or free of emissions as well as high value for money (VFM) (Zhikang, 2017). To meet the changing preferences, the major players in the automotive have been forced to embrace the advancing technology and at the same time be innovative enough to continue designing car models that meet the emerging need of customers. The continued commitment of automotive companies manufacture new car models as per the needs of consumers has made the entire automotive industry an evolving one.

The second major strength enjoyed by the automotive industry as a result of the forces shaping it is continuous technological advancement and high innovation (Stănculescu, 2016). Again, the ever-changes tastes and preferences of the consumer have made it necessary for the key players in the industry to continuously embrace the most advanced technology and high level of innovation to produce vehicles that satisfy preferences of the consumers. By so doing, the industry has continued to enjoy the strength of advanced technology as well as a high level of innovation. The third strength enjoyed by the industry courtesy of the current forces shaping it is the increased demand for electric vehicles car models with high VFM in terms of high mileage coverage and being fuel-efficient in the emerging international markets.

Weaknesses

Similarly, the forces shaping the car manufacturing industry have presented some weaknesses. Among the key identifiable weakness of the industry is high consumer bargaining power. The research done so far indicate that consumers within the automotive industry have considerably high bargaining powers something that is attributable to high rates of competition as well as the availability of a wide range of alternatives from which to make selection (Felli et al., 2019). More so, the industry suffers the weakness of stringent government policies or rather regulations such as the emission laws as well as heavy taxation rates of luxury cars in some international markets, among others.

Opportunities

Among the key opportunities that car manufacturing has is the invention of the fuel-efficient car models. This is a golden opportunity because the introduction of fuel-efficient car models creates more new global markets for the industry (Bindra, 2020). The resulting new international markets, in return, will act as a key driver for the economic growth of the entire automotive industry. The expansion of global markets like the emerging Asian market is yet another opportunity presented to the industry by the key forces shaping it. More importantly, the company enjoys the opportunity of ever-changing preferences of the consumer and the overall lifestyle changes. This is an opportunity because through such a changing lifestyle and consumer preferences come with the increased demand for new car models. Consequently, automotive firms are able to get a chance of producing and selling new car models, thus improving their profits. Furthermore, there is the opportunity of forming strategic alliances in the sense that an individual automotive firm has a chance of partnering with a related company with differentiated products or services.

Threats

The car manufacturing industry is confronted a few threats whose root cause is the forces that are currently shaping the industry. One of the major threats is the increase in competition. The increased competition is because the industry is currently involving more players than never before (Felli et al., 2019). Besides, there is the threat of huge investment in the research and development as well as a high fixed cost. Other notable threats include a sluggish economy as well as the volatility of fuel prices (Conibear et al., 2018).

How Firms can Best Position Themselves to Gain a Competitive Advantage

Guided by the challenges and opportunities presented to the car manufacturing industry, there are two key ways firms operating in the industry can best position themselves to gain or enhance their competitive advantage. These include investing more in research and development to identify and meet changing market needs as well as forming strategic alliances with related firms or institutions with differentiated services, products or specialised capabilities.

Conclusion

The study aimed at analysing the major forces influencing or shaping the business environment of the car manufacturing industry and at the same time explains how the industry has changed with time. It can be concluded that there are many forces shaping the business environment of the car manufacturing industry. Some of those major forces include ever-changing consumer preferences, stringent government regulations like emission and safety policies as well as continuously advancing technology and innovation. High consumer bargaining power, huge investment in research and development, the increased competition rate as well as harsh government policies are some of the major challenges caused by those forces.

On the other side, the presented opportunities include continuously advancing technology, the emergence of new international markets, among others.

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